Newfoundland Labrador

Department of Finance

Newfoundland and Labrador Government Sinking Fund

Activity Plan

April 1, 2011 to March 31, 2014

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BOARD OF TRUSTEES
NEWFOUNDLAND AND LABRADOR CONSOLIDATED SINKING FUNDS

NEWFOUNDLAND AND LABRADOR GOVERNMENT SINKING FUND
NEWFOUNDLAND AND LABRADOR MUNICIPAL FINANCING CORPORATION SINKING FUND

P.O. BOX 8700
ST. JOHN'S, NL
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June 30, 2011

Honourable Thomas W. Marshall, QC
Minister of Finance
Government of Newfoundland and Labrador
Confederation Building
St. John's, NL
Canada A1B 4J6

Dear Minister Marshall:

The Newfoundland and Labrador Government Sinking Fund administers the sinking funds established by the Province of Newfoundland and Labrador for the repayment of the Province's debenture debt. The effective investment and control of these funds is consistent with the Department's responsibilities with respect to stewardship of public money and management of the funded debt and supports the Department's strategic direction and commitment to responsible management of the province's fiscal resources.

This plan provides an overview of the Newfoundland and Labrador Government Sinking Fund and identifies key issues for the Board of Trustees during the fiscal periods covered in the Plan. The Board of Trustees is accountable for the preparation of this Plan and for the achievement of its objectives.

As Chair of the Board, it is my pleasure to submit the Activity Plan covering the three year period from April 1, 2011 to March 31, 2014.

Sincerely,

Terry Paddon
Chair of the Board

Activity Plan

1.0 Overview

The Newfoundland and Labrador Government Sinking Fund was created pursuant to the *Financial Administration Act* to consolidate and administer sinking funds established for the repayment of the Province's debenture debt. The Province has established sinking funds for most of its long term debenture issues and the annual contributions to these sinking funds are invested under the direction of the Board of Trustees of the Newfoundland and Labrador Consolidated Sinking Funds, appointed by the Lieutenant Governor in Council to manage and control the day-to-day operation of the sinking funds. The Board of Trustees consists of the incumbents in five senior public service positions with the Department of Finance as follows:

Terry Paddon	Deputy Minister
Robert Constantine	Assistant Deputy Minister Taxation and Fiscal Policy
Ronald Williams	Comptroller General
Paul Myrden	Director, Debt Management
Linda Howell	Manager of Debt Servicing & Financial Risk

The Newfoundland and Labrador Government Sinking Fund operates with a March 31 fiscal year end and the results of its activities are fully consolidated in the Province's annual financial statements.

2.0 Mandate

The mandate of the Board of Trustees is to manage and control the operational activities of the Newfoundland and Labrador Government Sinking Fund and the sinking funds of certain Crown corporations where the Province has guaranteed the related debt (i.e. Newfoundland and Labrador Municipal Financing Corporation and the Eastern Regional Integrated Health Authority). These activities include setting investment policy, investment of funds and the monitoring of such. These funds are invested in accordance with the *Financial Administration Act*, primarily in bonds, debentures or other securities issued or guaranteed by the Government of Canada, the government of a province of Canada, or a chartered bank, with the goal of earning the maximum return from investment of the portfolio while ensuring security of the funds.

3.0 Primary Clients and Stakeholders

The Board's primary responsibility is to the bondholders of the Province's debt and to the taxpayers of the Province, in ensuring Provincial compliance with the terms and conditions of its debenture debt and prudent management of the Fund's assets for future application against the Province's outstanding debt.

4.0 Support of Vision and Mission of Department

The vision of the Department of Finance is of a vibrant and self-reliant economy and prosperous people, and is supported by the Newfoundland and Labrador Government Sinking Fund. The mission of the Department of Finance is to support Government in its commitment to fiscal sustainability and a healthy economy for the Province. By March 31, 2017, the Newfoundland and Labrador Government Sinking Fund will have continued to follow the mission of the Department by supporting the Province's fiscal management through the prudent management and investment of Sinking Fund assets.

5.0 Sources of Funding

For debenture issues which have sinking fund requirements, the Province makes the required sinking fund contributions to the Board of Trustees. In each of the years 2011-12, 2012-13 and 2013-14, these contributions will amount to approximately $48 million annually, based upon debt outstanding at March 31, 2011. Sinking fund contributions are invested and the interest earnings, less an amount to cover administrative costs, are re-invested.

The Newfoundland and Labrador Government Sinking Fund's day-to-day activities are managed by employees of the Department of Finance and the Sinking Fund is invoiced quarterly by the Province for reimbursement of these expenses on a cost-recovery basis.

6.0 Goal

The Newfoundland and Labrador Government Sinking Fund supports the Department of Finance in its responsibilities related to stewardship of public money and fiscal management by the investing of funds in accordance with parameters set out in the *Financial Administration Act* and the Department's mandate and mission statement. The unpredictable nature of the investment market continues to challenge the Board of Trustees in its mandate to ensure that the investment strategy maximizes the rate of return earned on its investment portfolio, while at the same time, protects the security of the sinking funds.

Under current policy, surplus sinking funds (i.e. for each particular Provincial loan outstanding, the amount of a sinking funds' value over the amount of related debt outstanding) are returned to the Province annually. Prior to 1999, when this policy was brought into effect, all surplus funds were left in the overall Newfoundland and Labrador Government Sinking Fund, to apply against other loans outstanding. Given the low interest rate environment of today's financial markets

which may not allow sufficient growth in the more recent sinking funds to cover debt outstanding upon maturity of a loan, and given the much improved financial condition of the Province, a review should be undertaken to see if this policy is the appropriate policy and is the best use of the Province's financial resources.

Goal By March 31, 2014, the Newfoundland and Labrador Government Sinking Fund will have continued prudent investment of the fund's assets.

Measure:

- Invested fund assets

Indicator:

- Continued prudent investment

Objectives

1. By March 31, 2012, the Newfoundland and Labrador Government Sinking Fund Board will have ensured prudent investment of the assets of the Fund, reviewed the policy of repayment of the surplus sinking funds, and implemented any approved changes to the policy.

   Measure: Ensured prudent investment, reviewed the policy, and implemented any approved changes.

   Indicators:

   - Completed policy review and approved changes
   - Prudently invested the assets of the Fund in accordance with the *Financial Administration Act*
   - Completed review of periodic reports to the Board

2. As of March 31, 2013, the Newfoundland and Labrador Government Sinking Fund will have continued prudent investment of the assets of the Fund.

3. As of March 31, 2014, the Newfoundland and Labrador Government Sinking Fund will have continued prudent investment of the assets of the Fund.

Appendix A – Newfoundland and Labrador Government Sinking Fund Strategic Direction

Title: Fiscal Management

Outcome: Responsible management of the province's fiscal resources to ensure future sustainability of the Province and its citizens

Clarifying Statement: This outcome supports the policy direction of Government and requires systematic intervention in the following areas:

Strategic Direction Component	This direction is addressed by the Newfoundland and Labrador Government Sinking Fund in its Activity Plan	Operational Plan	Branch and/or Divisional Work Plans
Prudent responsible management of debt and debt servicing costs	√		